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**BAY AREA AIR QUALITY  
MANAGEMENT DISTRICT  
BASIC FINANCIAL STATEMENTS,  
SINGLE AUDIT REPORTS, TRANSPORTATION  
FUND FOR CLEAN AIR (TFCA) PROGRAM  
TOGETHER WITH INDEPENDENT  
AUDITORS' REPORTS  
FOR THE YEAR ENDED JUNE 30, 2008**

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2008**

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BASIC FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2008**

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# MAZE & ASSOCIATES

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To the Board of Directors  
of the Bay Area Air Quality Management District  
San Francisco, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bay Area Air Quality Management District (District), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in the financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1D, the District changed its method of reporting interest earned on deferred grants and restated beginning fund balance.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Required Supplementary Information Section are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Maze & Associates*

February 6, 2009

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

This discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the accompanying letter of transmittal and basic financial statements.

**A. Financial Highlights**

The assets of the District exceeded its liabilities at the close of fiscal year 2007-08 by \$41,758,818 (net assets). Of this amount, \$19,161,977 could be used to finance the District's daily operations without legal or legislative constraints (unrestricted assets); \$22,596,841 was restricted to specific uses (restricted assets); and \$11,273,003 was invested in capital assets. Net assets decreased by \$28,716,945 from fiscal year 2006-07.

The District's governmental funds reported a fund balance of \$33,929,914, with the entire amount representing the General Fund, which is a change from the prior year presentation. The District changed the application of interest revenue recognition for the Special Revenue Fund from recognizing when received, to recognizing when expenditures have been incurred. The change in the application resulted in the fund balance of the Special Revenue Fund being eliminated in the amount of \$26,511,937, and the Deferred Revenue balance increasing by a corresponding amount. The General Fund balance of \$6,358,306 represents the unreserved fund balance with the remaining balance of \$27,571,608, reserved for specific uses. Table 1 presents the General Fund detail of fund balances as of June 30, 2008, and June 30, 2007.

**Table 1. General Fund Balances as of June 30, 2008, and 2007**

	2008	2007	Change
<b>Reserved for:</b>			
Revolving Fund	\$500	\$500	
Encumbrances	9,978,556	4,904,467	\$5,074,089
Multi-year Appropriations		152,141	(152,141)
Worker's Compensation	<u>1,000,000</u>	<u>1,000,000</u>	
Reserve	\$10,979,056	\$6,057,108	\$4,921,948
<b>Total Reserved</b>			
<b>Unreserved, designated for:</b>			
Building and Facilities	1,731,690	1,731,690	
PERS Super Funding	2,700,000	3,100,000	(400,000)
Radio Replacement	75,000	75,000	
Climate Protection		3,000,000	(3,000,000)
Production System	2,800,000	1,250,000	1,550,000
Capital Equipment	130,425	130,425	
Contingencies	400,000	400,000	
Economic uncertainties	<u>8,755,437</u>	<u>7,709,028</u>	<u>1,046,409</u>
<b>Total Unreserved, designated</b>	16,592,552	17,396,143	(803,591)
<b>Undesignated</b>	<u>6,358,306</u>	<u>13,996,404</u>	<u>(7,638,098)</u>
<b>Total Fund Balance</b>	<u>\$33,929,914</u>	<u>\$37,449,655</u>	<u>(\$3,519,741)</u>

## **B. Overview of the Financial Statements**

This discussion and analysis is designed to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also includes required and other supplementary information in addition to the basic financial statements.

### **Government-wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the District.

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business. They provide information about the activities of the District as a whole and present a longer-term perspective of the District's finances. Government-wide financial statements include the Statement of Net Assets and the Statement of Activities and Changes in Net Assets.

The Statement of Net Assets reports all assets held and all liabilities owed by the District on a full accrual basis. The difference between the assets held and the liabilities owed is reported as *Net Assets*. The net assets total is comparable to total stockholder's equity presented on the balance sheet of a private enterprise. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Assets as of June 30, 2008 is presented on Page 12.

The Statement of Activities reports the net cost of the District's activities by category and is also prepared on a full accrual basis. Under the full accrual basis of accounting, revenues and expenses are recognized as soon as the underlying event occurs, regardless of the timing of the related cash flows. The focus of the Statement of Activities is on the cost of various work programs performed by the District. The statement begins with a column that identifies the total cost of these programs followed by columns that summarize the District's program revenues by major category. The difference between expenses and revenues represents the net cost or benefit of the District's work programs. General revenues are then added to the net cost/benefit to calculate the change in net assets. The Statement of Activities and Changes in Net Assets is presented on pages 13.

All of the District's activities are governmental in nature and no business-type activities are reported in these statements.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bay Area Air Quality Management District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For governmental activities, these statements tell how these services were financed in the short-term and what is left over for future spending. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's major funds. The District maintains two governmental funds; the General Fund and the Special Revenue Fund.



## **B. Overview of the Financial Statements, Continued**

### **Governmental Funds**

Governmental fund financial statements consist of the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. Both are prepared using the modified accrual basis of accounting.

Balance Sheets prepared under the modified accrual basis of accounting have a short-term emphasis and, for the most part, measure and account for cash and other assets that can be easily converted to cash. Specifically, cash and receivables that are deemed collectible within a very short period of time are reported on the balance sheet. Capital assets such as land and buildings are not reported in governmental fund financial statements. Fund liabilities include amounts that will be paid within a very short period of time after the end of the fiscal year. Long-term liabilities such as outstanding bonds are not included. The difference between a fund's total assets and total liabilities represents the fund balance. The unrestricted portion of fund balance represents the amount available to finance future activities. The District's governmental fund balance sheets can be found on page 16.

The Statement of Revenues, Expenditures and Changes in Fund Balance include only revenues and expenditures that were collected in cash or paid with cash during the fiscal year or very shortly after the end of the fiscal year. The governmental fund Statements of Revenue, Expenditures and Changes in Fund Balance can be found on page 18.

Since a different basis of accounting is used to prepare these statements, reconciliation is required to facilitate the comparison between the government-wide statements and the fund financial statements. The reconciliation of the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Assets is on page 17. The Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets can be found on page 19.

### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 25 to 37.

### **Required and Other Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the governmental funds budget comparison schedules and the California Public Employees Retirement System (PERS) Schedule of Funding Progress on pages 41 to 44.

### C. Government-Wide Financial Analysis

The government-wide financial analyses focus on net assets and changes in net assets of the District's governmental activities. Table 2 below shows a condensed Statement of Net Assets as of June 30, 2008 compared to the fiscal year ended June 30, 2007.

**Table 2. Statement of Net Assets as of June 30, 2008 and June 30, 2007**

Current & Other Assets	\$ 141,243,016	\$ 118,062,536	\$ 23,180,480
Noncurrent Assets	<u>11,273,503</u>	<u>9,233,224</u>	<u>2,040,279</u>
<b>Total Assets</b>	<b>\$ 152,516,519</b>	<b>\$ 127,295,760</b>	<b>\$ 25,221,759</b>
Noncurrent Liabilities	\$ 3,440,599	\$ 2,718,553	\$ 722,046
Current Liabilities	<u>107,317,102</u>	<u>54,101,444</u>	<u>53,215,658</u>
<b>Total Liabilities</b>	<b>\$ 110,757,701</b>	<b>\$ 56,819,997</b>	<b>\$ 53,937,704</b>
Net Assets:			
Invested in Capital Assets	\$ 11,273,003	\$ 9,232,724	\$ 2,040,279
Restricted	11,323,838	6,554,711	4,769,127
Unrestricted	<u>19,161,977</u>	<u>54,688,328</u>	<u>(35,526,351)</u>
<b>Total Net Assets</b>	<b>\$ 41,758,818</b>	<b>\$ 70,495,763</b>	<b>(\$28,716,945)</b>

As noted earlier, total net assets may serve over time as a useful indicator of the District's financial position. At June 30, 2008 the District's assets exceeded its liabilities by \$ 41,758,818 - a decrease of \$28,716,945 over the previous fiscal year. The decrease was due primarily to the District changing the application of interest revenue recognition for the Special Revenue Fund. The change resulted in an increase of \$26,511,937 to deferred revenue, and a corresponding decrease in net assets.

Restricted assets are to be used for specific programs and purposes according to legal terms and conditions. The remaining portion of the District's net assets is unrestricted and may be used to meet the District's obligations in carrying out its day-to-day operations.

## C. Government-Wide Financial Analysis, Continued

Table 3 below provides Changes in Net Assets for the fiscal year ending June 30, 2008 compared with the fiscal year ended June 30, 2007.

**Table 3. Statement of Changes in Net Assets for Fiscal Years 2007-08 and 2006-07**

<b>Revenues:</b>		
<b>Program Revenues:</b>		
TFCA DMV Fees	\$ 18,999,797	\$ 22,049,092
MSIF DMV Fees	2,003,105	3,971,580
Operating Grants and Contributions	15,177,673	5,990,768
Permit Fees and PERP	18,427,888	19,455,368
Title V Permit Fees	1,992,820	2,062,812
State Subvention	1,711,718	1,748,051
Spare the Air Grant (CMAQ)	677,953	1,336,931
Federal Grants (EPA)	1,983,135	1,585,312
Federal Grants (Homeland Security)	870,427	945,948
Penalties & Variance Fees	3,084,812	5,868,539
Hearing Board Fees	27,354	21,123
AB 2588 Income	552,445	351,599
Asbestos Fees	1,800,001	1,679,146
District Services & Consulting		825
Interest Revenue	1,336,834	4,036,355
Other Grants	1,371,109	197,998
AB434 Others	595,708	
Miscellaneous Revenue	54,776	1,119,639
Special Environmental Projects	129,680	
County Apportionments	\$ 20,878,006	\$ 19,464,704
<b>Total Revenues</b>	<b>\$ 91,675,241</b>	<b>\$ 91,885,790</b>
<b>Expenses:</b>		
Salaries and Benefits	\$ 44,421,764	\$ 39,755,626
Services and Supplies	17,855,471	14,736,720
Capital Outlay	1,002,183	2,844,313
Program Distributions	30,600,831	23,969,064
<b>Total Expenses</b>	<b>\$ 93,880,249</b>	<b>\$ 81,305,723</b>
Loss on Sale of capital assets		(35,134)
<b>Increase (Decrease) In</b>		
<b>Net Assets at June 30, 2008 &amp; 2007</b>	<b>\$ (2,205,008)</b>	<b>\$ 10,544,933</b>

### Governmental Activities

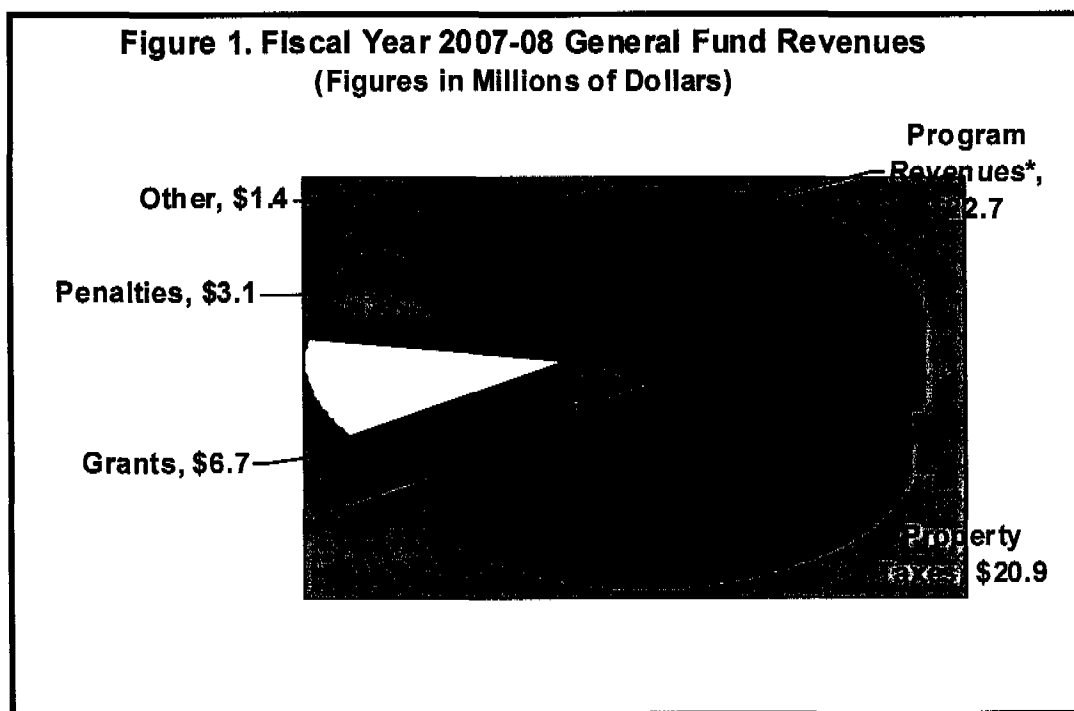
The objective of the Statement of Activities is to report the full cost of providing government services during the fiscal year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws funds from the general funds of the government.

The Statement of Activities presents information showing how the District's net assets changed during the FY 2007-2008. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

### C. Government-Wide Financial Analysis, Continued

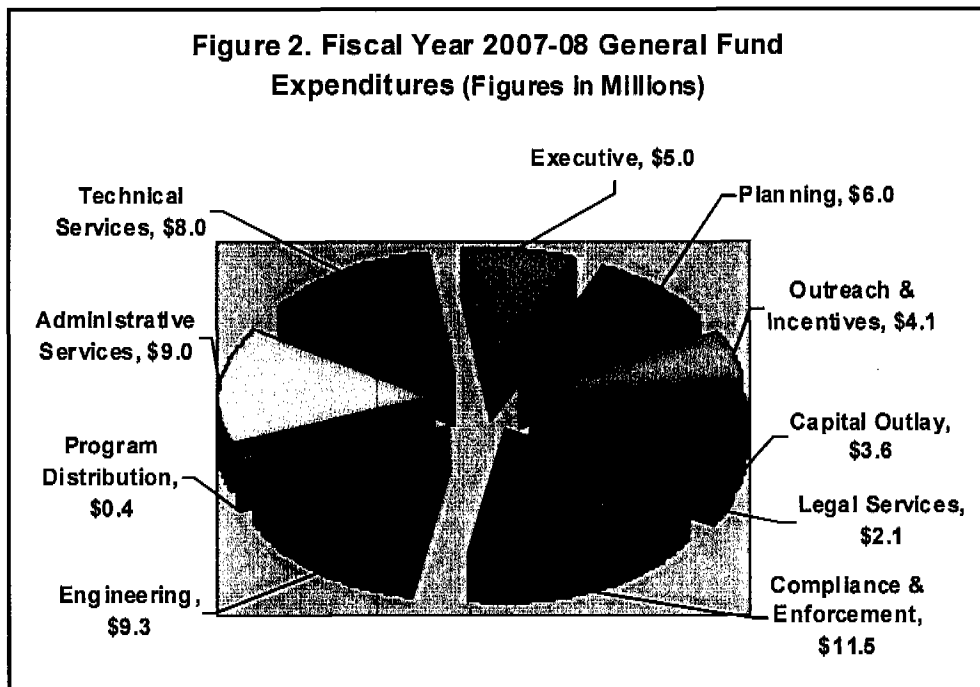
Governmental functions of the District are predominately supported by fees, property taxes, subvention, grants, and penalties and settlements. The penalties and settlements are one-time revenues which are over and above the regular revenues directly related to the programs. The primary governmental activities of the District are: to advance clean air technology, ensure compliance with clean air rules, develop programs to achieve clean air, develop rules to achieve clean air, monitoring air quality, permit review and Special Revenue Fund Activities.

Figure 1 below provides a pie chart of the District's General Fund revenues for fiscal year 2007-08. The General Fund received total revenue of \$54,853,843 in fiscal year 2007-08 – a decrease of \$2,238,149 over fiscal year 2006-07. Program Revenues\* include: Permit, AB2588, PERP, Title V, and Asbestos fees. Program revenues were the largest General Fund revenue source in fiscal 2007-08 (\$22.7 million), followed by Property Tax (\$20.9 million), Grants (\$6.7 million), Penalties (\$3.1 million), and Other revenues (\$1.4 million).



### C. Government-Wide Financial Analysis, Continued

Figure 2 below provides a graph of General Fund expenditures for fiscal year 2007-08. General Fund expenditures totaled \$58,969,292 which is an increase of \$7,957,588 over fiscal year 2006-07. General Fund expenditures represent the District's general government operating costs categorized into the following operating divisions: Compliance and Enforcement (\$11.5 million); Engineering (\$9.3 million) Administrative Services (\$9.0 million) Technical Services (\$8.0 million) Executive (\$5.0 million) Planning (\$6.0 million); Outreach & Incentives (\$4.1 million); and Legal Services (\$2.1 million); the District also incurred \$3.6 million of Capital Outlay expenditures in fiscal year 2007-08. General Fund expenditures exceeded revenue by \$4,115,449 in fiscal year 2007-08.



Total General Fund revenue decreased by \$2.2 million or 3.9% compared with the prior fiscal year, primarily due to a decrease in penalties and variance fees. General Fund Expenditures increased by \$8.0 million or 15.6% compared to the prior year, primarily both from increased expenditures across all programs in accomplishing the District's mission, and prefunding of the District's other post-employment benefits in the amount of \$2.8 million.

The General Fund is the operating fund of the District and at the end of the fiscal year, the total fund balance of the General Fund was \$33.9 million. The unreserved fund balance was \$6.4 million; reservations and designations were \$11.0 million and 16.6 million, respectively. These reserved and designated amounts represent the District's intended use of the financial resources in future periods. One measure of the General Fund's liquidity is the comparison of both unreserved fund and total fund balances to total expenditures. The unreserved fund balance represents 10.8% of the total General Fund expenditures, while the total fund balance represents 57.5% of the total fund expenditures.

The FY 07-08 adopted budget as compared to the amended budget reflects an increase in appropriations of \$18.2 million. The changes to the budget were the result of Governing Board actions, and carry over of unspent funds from 2006-07.

**Capital Assets**

As of June 30, 2008 the District's investment in capital assets was \$11.3 million net of accumulated depreciation. Capital assets include land, buildings, laboratory equipment, Air monitoring stations, computers, office furniture and District fleet vehicles.

**D. Economic Factors and Next Year's Budget**

The District receives approximately 38% of its General Fund revenue from property taxes levied in nine Bay Area counties and 33% from permit fees charged to local businesses. Consequently, District revenues are impacted by changes in the state and local economy. The District takes a fiscally conservative approach to its budget and it strives to balance its budget within available current revenues. In an effort to recover a greater share of the costs of maintaining air quality, the District increased its permitting fees by approximately 13.9% in FY 2008-09. The District will continue to focus on long term financial planning to ensure the vitality and effectiveness of its programs.

**E. Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jeffrey M. McKay, Deputy Executive Officer at 939 Ellis Street, San Francisco, CA 94109.

## BAY AREA AIR QUALITY MANAGEMENT DISTRICT

### STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets reports the difference between the District's total assets and the District's total liabilities, including all District's capital assets and all its long-term liabilities, on full accrual basis. The Statement of Net Assets presents information similar to the traditional balance sheet format, but presents it in a way that focuses the reader on the composition of the District's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the District's Governmental Activities in a single column. The District's Governmental Activities include the activities of its all of its governmental funds, capital assets and long-term liabilities.

The Statement of Activities reports increases and decreases in the District's net assets, and is also prepared on full accrual basis, which means it includes all District's revenues and all its expenses, regardless of when cash changes hands. This differs from the modified accrual basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the District's expenses listed by program. Program revenues — that is, revenues that are generated directly by these programs — are then deducted from program expenses to arrive at the net expense of each program. The District's general revenues are then listed in the Governmental Activities column, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements*.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments in County Treasury (Note 2)	\$123,827,416
Restricted cash and investments in County Treasury (Note 2)	6,160,622
Receivable:	
Trade (Note 3)	8,628,342
Interest (Note 3)	1,045,173
Other	53,920
Due from other governments	1,493,474
Deposits and other current assets	<u>34,069</u>
Total current assets	<u>141,243,016</u>
Noncurrent assets:	
Cash in revolving fund (Note 2)	500
Capital assets (Note 5):	
Non-depreciable	5,192,833
Depreciable, net	<u>6,080,170</u>
Total capital assets	<u>11,273,003</u>
Total noncurrent assets	<u>11,273,503</u>
Total assets	<u>152,516,519</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	10,411,706
Accrued payroll	747,769
Other current liabilities	439,477
Unearned revenue (Note 6)	95,714,650
Compensated absences - short-term (Note 10)	<u>3,500</u>
Total current liabilities	<u>107,317,102</u>
Noncurrent liabilities:	
Compensated absences - long-term (Note 10)	<u>3,440,599</u>
Total noncurrent liabilities	<u>3,440,599</u>
Total liabilities	<u>110,757,701</u>
<b>NET ASSETS (Note 13)</b>	
Invested in capital assets, net of related debt	<u>11,273,003</u>
Restricted for:	
Encumbrances	10,323,338
Revolving fund	500
Self-funded workers' compensation	<u>1,000,000</u>
Total restricted net assets	<u>11,323,838</u>
Unrestricted net assets	<u>19,161,977</u>
Total net assets	<u><u>\$41,758,818</u></u>

See accompanying notes to financial statements



BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Total	Net (Expense) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions		Governmental Activities
Governmental activities:					
Primary government	\$57,654,559	\$25,625,466	\$7,003,876	\$32,629,342	(\$25,025,217)
TFCA program:					
TFCA distribution	21,568,355		21,651,102	21,651,102	82,747
Carl Moyer Program	13,796,864		13,796,864	13,796,864	
Lower Emission School Bus Program	860,471		1,328,317	1,328,317	467,846
Total TFCA program	36,225,690		36,776,283	36,776,283	550,593
Total governmental activities	\$93,880,249	\$25,625,466	\$43,780,159	(24,474,624)	(24,474,624)
General revenues:					
County apportionment:					
Alameda					3,754,178
Contra Costa					2,804,322
Marin					1,085,957
Napa					720,086
Santa Clara					5,298,785
San Francisco					2,680,293
San Mateo					2,638,154
Solano					626,119
Sonoma					1,115,987
Redevelopment					154,125
Total county apportionment					20,878,006
Investment income not restricted for a specific program					1,391,610
Total general revenues					22,269,616
Change in net assets					(2,205,008)
Net asset, beginning, as restated (Note 1D)					43,963,826
Net assets-ending					\$41,758,818

See accompanying notes to financial statements

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## **FUND FINANCIAL STATEMENTS**

The Fund Financial Statements are presented by individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

## **MAJOR GOVERNMENTAL FUNDS**

The funds described below were determined to be Major Funds by the District for fiscal year 2008.

### **GENERAL FUND**

*The General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

### **SPECIAL REVENUE FUND**

*The Special Revenue Fund* is used to account for proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2008

	MAJOR FUNDS		Total Governmental Funds
	General Fund	Special Revenue Fund	
<b>ASSETS</b>			
Cash and investments in County Treasury (Note 2)	\$31,644,441	\$92,182,975	\$123,827,416
Restricted cash and investments in County Treasury (Note 2)		6,160,622	6,160,622
Cash in revolving fund (Note 2)	500		500
Receivable:			
Trade (Note 3)	2,739,120	5,889,222	8,628,342
Interest (Note 3)	252,288	792,885	1,045,173
Other	53,920		53,920
Due from other governments	1,448,328	45,146	1,493,474
Due from other funds (Note 4A)	2,090,703		2,090,703
Deposits and other assets	27,940	6,129	34,069
<b>Total assets</b>	<b>\$38,257,240</b>	<b>\$105,076,979</b>	<b>\$143,334,219</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	2,236,975	8,174,731	10,411,706
Accrued salaries and wages payable	747,769		747,769
Due to other funds (Note 4A)		2,090,703	2,090,703
Other liabilities	439,477		439,477
Deferred revenue (Note 6)	903,105	94,811,545	95,714,650
<b>Total liabilities</b>	<b>4,327,326</b>	<b>105,076,979</b>	<b>109,404,305</b>
Fund balances:			
Reserved fund balances:			
Revolving fund	500		500
Encumbrances	9,978,556	344,782	10,323,338
Self-funded workers' compensation	1,000,000		1,000,000
<b>Total reserved</b>	<b>10,979,056</b>	<b>344,782</b>	<b>11,323,838</b>
Unreserved, designated for:			
Building and facilities	1,731,690		1,731,690
PERS super funding	2,700,000		2,700,000
Radio replacement	75,000		75,000
Production system	2,800,000		2,800,000
Capital equipment	130,425		130,425
Contingencies	400,000		400,000
Economic uncertainties	8,755,437		8,755,437
<b>Total unreserved, designated</b>	<b>16,592,552</b>		<b>16,592,552</b>
Unreserved and undesignated	6,358,306	(344,782)	6,013,524
<b>Total fund balances</b>	<b>33,929,914</b>		<b>33,929,914</b>
<b>Total liabilities and fund balances</b>	<b>\$38,257,240</b>	<b>\$105,076,979</b>	<b>\$143,334,219</b>

See accompanying notes to financial statements

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
Reconciliation of  
FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
with the  
STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008

Amounts reported for Governmental Activities in the Statement of	
Net Assets are different from those reported in the Governmental Funds above because of the following:	\$33,929,914
 CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds	 11,273,003
 LONG-TERM LIABILITIES	
The liabilities below are not due and payable in the current period and therefore are not reported in the Funds:	
Long-term compensated absences	<u>(3,444,099)</u>
 NET ASSETS OF GOVERNMENTAL ACTIVITIES	 <u>\$41,758,818</u>

See accompanying notes to financial statements

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2008

	MAJOR FUNDS		Total Governmental Funds
	General Fund	Special Revenue Fund	
<b>REVENUES</b>			
TFCA/MSIF DMV fees		\$21,002,902	\$21,002,902
Carl Moyer Program		13,796,864	13,796,864
Nox and PM10 Program		52,492	52,492
Lower Emission School Bus Program		1,328,317	1,328,317
Permit fees	\$18,038,354		18,038,354
Title V permit fees	1,992,820		1,992,820
Asbestos fees	1,800,001		1,800,001
Penalties and variance fees	3,084,812		3,084,812
Hearing board fees	27,354		27,354
State subvention	1,711,718		1,711,718
AB 434/923 others		595,708	595,708
AB 2588 income	552,445		552,445
Miscellaneous	54,776		54,776
Special environmental projects	129,680		129,680
Federal grant - EPA	1,983,135		1,983,135
Federal grant - DHS	870,427		870,427
CMAQ Spare The Air	677,953		677,953
Other grants	1,325,994	45,115	1,371,109
Portable equipment registration program (PERP)	389,534		389,534
Interest	1,336,834		1,336,834
County apportionment:			
Alameda	3,754,178		3,754,178
Contra Costa	2,804,322		2,804,322
Marin	1,085,957		1,085,957
Napa	720,086		720,086
Santa Clara	5,298,785		5,298,785
San Francisco	2,680,293		2,680,293
San Mateo	2,638,154		2,638,154
Solano	626,119		626,119
Sonoma	1,115,987		1,115,987
Redevelopment	154,125		154,125
Total revenues	54,853,843	36,821,398	91,675,241
<b>EXPENDITURES</b>			
General government:			
Program distribution	473,585		473,585
Executive office	4,991,577		4,991,577
Finance, administration and information systems	8,955,037		8,955,037
Legal services	2,074,476		2,074,476
Outreach and incentives	4,077,382		4,077,382
Compliance and enforcement	11,464,677		11,464,677
Engineering	9,324,643		9,324,643
Planning and research	5,981,905		5,981,905
Technical services	8,021,377		8,021,377
TFCA Program:			
Program distribution		30,127,247	30,127,247
Smoking vehicle		290,131	290,131
Intermittent control		634,971	634,971
Transportation fund for clean air administration		915,866	915,866
Vehicle buy-back		3,798,240	3,798,240
Mobile source incentive		414,121	414,121
Grant administration		45,114	45,114
Capital outlay	3,604,633		3,604,633
Total expenditures	58,969,292	36,225,690	95,194,982
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(4,115,449)	595,708	(3,519,741)
OTHER FINANCING SOURCES (USES)			
Transfers in (Note 4B)	595,708		595,708
Transfers (out) (Note 4B)		(595,708)	(595,708)
Total other financing source (uses)	595,708	(595,708)	
NET CHANGE IN FUND BALANCES	(3,519,741)		(3,519,741)
BEGINNING FUND BALANCES, AS RESTATED (NOTE 1D)	37,449,655		37,449,655
ENDING FUND BALANCES	\$33,929,914		\$33,929,914

See accompanying notes to financial statements

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
Reconciliation of the  
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
to the  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	(\$3,519,741)
--	---------------

Amounts reported for governmental activities in the Statement of Activities  
are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the  
Statement of Activities the cost of those assets is capitalized and allocated  
over their estimated useful lives and reported as depreciation expense.

Capitalized expenditures are added back to fund balance	3,375,086
Depreciation expense is deducted from fund balance	(1,287,728)
Loss of disposal of capital assets is deducted from fund balance	(47,079)

NON-CURRENT ITEMS

The amount below included in the Statement of Activities does not require the use of  
current financial resources and therefore are not reported as revenue or expenditures in  
governmental funds (net change):

Long-term compensated absences	(725,546)
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	(\$2,205,008)
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See accompanying notes to financial statements

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<b>FIDUCIARY FUND</b>
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**OTHER POST EMPLOYMENT BENEFIT (OPEB) TRUST FUND**

This Fund is used by the District account for assets legally held in trust for the specific purpose of retiree life insurance benefit.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
FIDUCIARY FUND  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2008

	OPEB Trust Fund
ASSETS	
Cash and investments (Note 11)	<u>\$2,724,190</u>
Total assets	<u>\$2,724,190</u>
NET ASSETS	
Held in trust	<u>\$2,724,190</u>
Total liabilities	<u>\$2,724,190</u>

See accompanying notes to financial statements

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Pension Trust Funds
ADDITIONS:	
Investment income	<u>\$124,826</u>
Total additions	<u>124,826</u>
CHANGE IN NET ASSETS	124,826
NET ASSETS, BEGINNING OF YEAR	<u>2,599,364</u>
NET ASSETS, END OF YEAR	<u><u>\$2,724,190</u></u>

See accompanying notes to financial statements

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES**

**A. *Reporting Entity***

The Bay Area Air Quality Management District (District) was created by the California legislature in 1955. The District's structure, operating procedures and authority are established by Division 26 of the California Health and Safety Code.

The District's jurisdiction is limited principally to policing non-vehicular sources of air pollution within the Bay Area, primarily industry pollution and burning. Any company wishing to build or modify a facility in the Bay Area must first obtain a permit from the District to ensure that the facility complies with all applicable rules.

The District also acts as the program administrator for Transportation Fund for Clean Air (TFCA) funds and Mobile Source Incentive funds (MSIF) derived from Assembly Bill 434 and Assembly Bill 923 respectively. TFCA and MSIF funding comes from a \$4 and \$2 surcharge, respectively, on motor vehicles registered within the District. TFCA funding may only be used to fund eligible projects that reduce motor vehicles emissions and support the implementation of the transportation and mobile source control measures in the 1994 Clean Air Plan. All projects must fall within the categories listed in State Law (Health and Safety Code Section 44241).

The Health and Safety Code requires the District to pass-through no less than forty percent of the TFCA revenues raised within a particular county to that county's eligible, designated Program Manager. The remaining sixty percent is for Regional Fund grants and is being allocated to projects on a competitive basis. Projects are evaluated using the District's Board adopted evaluation and scoring criteria. The District may receive reimbursement from TFCA funds, not to exceed 5% of total funds, for administration of the program. TFCA activities are accounted for in the District's Special Revenue Fund.

The District includes seven counties: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo and Santa Clara and portions of two other counties, Southwestern Solano and Southern Sonoma. The District is governed by a twenty-two member Board of Directors that includes representatives from all of the above counties.

The basic financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals. The District's significant accounting policies are described below.

The financial statements and accounting policies of the District conform with generally accepted accounting principles applicable to governments. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below.

**B. *Basis of Presentation***

The District's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The GASB is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

These Statements require that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities display information about the primary government (the District). Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining funds, if any, are aggregated and reported as non-major funds.

**C. Major Funds**

The District's major governmental funds are required to be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of the total. The General Fund is always a major fund. The District has elected to treat all its funds as major funds.

**GENERAL FUND** - The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**SPECIAL REVENUE FUND** - This Fund is used by the District to account for the proceeds of specific revenue sources (other than capital projects) that are legally restricted to expenditures for specified purposes.

**OPEB TRUST FUND** - GASB rules require accounting for post-employment benefits. The OPEB Trust Fund was established to record the amounts set aside by the District to fund future retiree life insurance benefit.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds.

Those revenues susceptible to accrual are taxes, intergovernmental revenues, interest, charges for services, fines and penalties, and license and permit revenues.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Deferred revenue arises when potential revenues do not meet both the "measurable" and "available" criteria for revenue recognition in the current period. Deferred revenue also arise when the government receives monies before it has a legal claim to them including grant monies received prior to incurring qualifying expenditures.

Deferred revenue consists of TFCA DMV fees (DMV fees) which are recorded when the monthly fees are received. Forty percent of the DMV fees received are passed through twice a year to Program Managers at the nine counties served by the District. These disbursements are DMV fees collected in the prior six months. Revenues are recognized twice a year when disbursements are made. The remaining sixty percent of DMV fees are utilized to fund regional programs and programs sponsored by the District. Disbursements for the regional programs are made based on a reimbursement basis. Revenue is recognized throughout the year when the disbursements for the above programs are made.

The District deposits the above DMV fees in an interest bearing account when received. In prior years, interest earned by these fees was recognized as revenue when received by the District. In fiscal 2008, the District changed the application of its accounting principal and determined that interest generated by unearned DMV fees should be treated in the same manner as the unearned fees themselves as discussed above. As a result, the entire beginning fund balance of \$26,511,937 in the Special Revenue Fund was reclassified as deferred revenue at July 1, 2008.

The deferred revenue balance reflects the reserved portion of the DMV fees that has been allocated to different programs, but expenditures have not been incurred as of year-end.

Unearned revenue in the Government-Wide Financial Statements represents amounts for which revenues have not been earned.

Certain indirect costs are included in program expenses reported for individual functions and activities.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 1 - REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. *Compensated Absences***

The District's liability for compensated absences is recorded in the Statement of Net Assets.

District employees are allowed to accrue no more than four hundred and sixty hours of vacation as of the end of the fiscal year. In the event of termination, the employees are reimbursed for all accumulated vacation at the time of separation from the District.

The District's policies provide compensation to employees for certain absences, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on any special event beyond the control of the District and its employees is accrued as employees earn those benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in a period in which such services are rendered or in which such events take place.

There are no restrictions regarding the accumulation of sick leave. On termination, employees are not paid for accumulated sick leave, but the accumulated sick leave is counted as service credit by the CalPERS pension plan administered by the State of California.

**F. *Income Taxes***

The District falls under the purview of Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to Federal or State income taxes and no provisions for income taxes have been made in the accompanying basic financial statements.

The District may fund projects with a combination of cost-reimbursement grants, advances, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance expenditures. The District's strategy is to first apply restricted grant resources to such activities, followed by general revenues as necessary.

**G. *Use of Management Estimates***

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**H. *Receivables***

During the course of normal operations, the District carries various receivable balances for taxes, interest and permitting operations. The District considers receivables to be fully collectible; accordingly no allowance for doubtful accounts had been provided. If amounts become uncollectible, they will be charged to operations when that determination is made.

**I. *Capital Assets***

The District's assets are capitalized at historical cost or estimated historical cost. District policy has set the capitalization threshold for reporting general capital assets at \$3,500. Donated capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings, grounds & improvements	15-20 years
Equipment	5-7 years



**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS**

The District pools cash from all sources and funds so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

The following is a summary of pooled cash and investments, including cash in revolving fund at June 30, 2008:

Cash in bank	\$113,636
Cash and investments in San Mateo:	
Pooled Fund Investment Program	123,713,780
Restricted cash and investments	6,160,622
Cash in revolving fund	<u>500</u>
Total	<u><u>\$129,988,538</u></u>

The District is a voluntary participant in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under the oversight of the Treasury of the County of San Mateo. The District reports its investment in the County Pool at the fair value amount provided by the County. Included in the County Pool's investment portfolio are US Treasury Notes, Obligations issued by the agencies of the United States Government, Local Agency Investment Fund (LAIF), Corporate Notes, Commercial Paper, Collateralized Mortgage Obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations.

The District earns interest on a proportionate basis with all other investors. Interest is credited directly to the District's account on a quarterly basis. The pooled fund is collateralized at 102% by San Mateo County, but not specifically identified to any one depositor or in the District's name.

The District's deposits and investments were categorized as follows at June 30, 2008:

	<u>Ratings</u>	<u>Maturities</u>	<u>Fair Value</u>
Cash in bank	Not Rated	Current	\$114,136
Cash and investments in San Mateo			
Pooled Fund Investment Program	Not Rated	Current	<u>129,874,402</u>
			<u><u>\$129,988,538</u></u>

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 2 - CASH AND INVESTMENTS (Continued)**

Subsequent to June 30, 2008, the District was informed that management of the San Mateo County Investment Pool removed certain investments issued by Lehman Brothers Holdings, Inc. (Lehman Brothers) from the Pool and classified them as non-performing assets due the bankruptcy filed by Lehman Brothers. This write down reflects concerns that those investments may not be collectible. Ultimate recovery, if any, is not determinable at this time. At September 30, 2008, the District's share of the loss is estimated to be approximately \$7,250,960.

**NOTE 3 - RECEIVABLES**

**A. Trade Receivable**

At June 30, 2008 the District had the following trade receivable:

<b>General Fund:</b>		
Trade	\$1,771,944	
County appointments	599,709	
Other	<u>367,467</u>	
Total General Fund		\$2,739,120
<b>Special Revenue Fund:</b>		
TFCA DMV fees	3,926,148	
MSIF DMV fees	1,963,074	
Total Special Revenue Fund		<u>5,889,222</u>
<b>Total Trade Receivable</b>		<u><u>\$8,628,342</u></u>

**B. Interest Receivable**

At June 30, 2008 the District had the following interest receivable:

<b>General Fund:</b>		
San Mateo County Investment Pooled Fund	<u>\$252,288</u>	
Total General Fund		\$252,288
<b>Special Revenue Fund:</b>		
San Mateo County Investment Pooled Fund	<u>792,885</u>	
Total Special Revenue Fund		<u>792,885</u>
<b>Total Interest Receivable</b>		<u><u>\$1,045,173</u></u>

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 4 – INTERFUND TRANSACTIONS**

**A. *Current Interfund Balances***

Current interfund balances arise in the normal course of business and represent short-term borrowings occurring as a result of expenditures which are paid prior to the receipt of revenues. These balances are expected to be repaid shortly after the end of the fiscal year when revenues are received. At June 30, 2008, the General Fund was owed \$2,090,703 by the Special Revenue Fund.

**B. *Transfers Between Funds***

With Board approval resources are transferred from one fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Interfund transfer for the year ended June 30, 2008 was as follows:

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>
General Fund	Special Revenue Fund	<u>\$595,708</u>

Transfers between funds represent costs required by the General Fund for grant administration.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 5 - CAPITAL ASSETS**

The District's capital assets comprise the following at June 30, 2008:

	Balance at 7/1/2007	Additions	Deletions	Transfers	Balance at 6/30/2008
<b>Governmental activities</b>					
<i>Non-depreciable assets:</i>					
Land	\$214,608				\$214,608
Construction in progress	2,506,740	\$2,471,485			4,978,225
<b>Total non-depreciable assets</b>	<b>2,721,348</b>	<b>2,471,485</b>			<b>5,192,833</b>
<i>Depreciable assets:</i>					
Building and grounds	7,741,443	303,958			8,045,401
Leasehold improvements	2,847,646				2,847,646
Office equipment	183,915	52,888		(\$33,909)	202,894
Computer and network equipment	2,749,305	103,313	(\$21,795)		2,830,823
Motorized equipment	1,492,573	33,891	(15,687)		1,510,777
Lab equipment	5,533,244	308,826	(76,732)		5,765,338
Communications equipment	668,663	37,966	(41,368)		665,261
General equipment	228,592	62,759		33,909	325,260
<b>Total depreciable assets</b>	<b>21,445,381</b>	<b>903,601</b>	<b>(155,582)</b>		<b>22,193,400</b>
<i>Accumulated depreciation</i>					
Building and grounds	5,312,354	373,827			5,686,181
Leasehold improvements	2,673,389	2,391			2,675,780
Office equipment	79,199	27,299		(19,688)	86,810
Computer and network equipment	1,238,426	222,667	(20,705)		1,440,388
Motorized equipment	1,039,792	183,999	(14,903)		1,208,888
Lab equipment	4,327,815	330,398	(72,895)		4,585,318
Communications equipment	185,511	97,048			282,559
General equipment	77,519	50,099		19,688	147,306
<b>Total accumulated depreciation</b>	<b>14,934,005</b>	<b>1,287,728</b>	<b>(108,503)</b>		<b>16,113,230</b>
<b>Total depreciable assets, net</b>	<b>6,511,376</b>	<b>(384,127)</b>	<b>(47,079)</b>		<b>6,080,170</b>
<b>Total capital assets, net</b>	<b>\$9,232,724</b>	<b>\$2,087,358</b>	<b>(\$47,079)</b>		<b>\$11,273,003</b>

Depreciation expenses by program for capital assets for the year ended June 30, 2008 are as follows:

Executive office	\$55,667
Administrative services	141,569
Legal services	26,076
Public information and outreach	43,585
Compliance and enforcement	347,908
Engineering	116,329
Planning	93,033
Technical services	381,349
Information systems	82,212
<b>Total depreciation expense</b>	<b>\$1,287,728</b>

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 6 – UNEARNED AND DEFERRED REVENUE**

Unearned revenues in Government-Wide Financial Statements represent amounts for which revenues have not been earned. Deferred revenues in the Fund Financial Statements represent amounts for which revenues have not been earned or the funds were not available to finance expenditures of the current period.

At June 30, 2008, all deferred revenues in the Fund Financial Statements represent revenues that were not earned at year-end. Therefore, all of the deferred revenues in the Fund Financial Statements are reported as unearned revenue in the Government-Wide Financial Statement. Unearned revenue in the Government-Wide Financial Statements and deferred revenue in the Fund Financial Statements as of June 30, 2008 were as follows:

<u>General Fund:</u>		
Tosco Corporation	\$13,500	
Backup Generator Administrator	577,005	
Vallero (ULTR)	50,000	
SEP - Delta Energy Center	40,000	
Romic Env Tec	19,000	
Shell Oil	203,000	
Other Grants	600	
Total General Fund		\$903,105
<u>Special Revenue Fund</u>		
TFCA DMV Fees	72,630,566	
CARB - Lower Emission School Bus	3,970	
BART	494,499	
Carl Moyer Program	11,580,161	
TFCA 40%	8,402,843	
Other Deferred Revenue	1,699,506	
Total Special Revenue Fund		94,811,545
<b>Total unearned and deferred revenue</b>		<b>\$95,714,650</b>

**NOTE 7 – OPERATING LEASES**

Commitments under non-cancelable operating lease agreements for air-monitoring stations and office equipment provide for minimum annual rental payments as follows:

<u>Year ended June 30:</u>	
2009	\$288,137
2010	222,342
2011	180,443
2012	126,007
2013	13,550
2014 - 2018	380,339
	<u>\$1,210,818</u>

Air-monitoring station leases are renewable with minor escalations.

Rental expense for the cancelable lease agreements for the year ended June 30, 2008 was \$283,428.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 8 – COUNTY APPORTIONMENT REVENUE**

As a result of the passage of Proposition 13 in fiscal year 1979, the District no longer has the power to calculate property tax revenues due for each county. Instead, the District now receives remittances from the counties, which are calculated in accordance with Assembly Bill Number 8.

Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year. Property tax revenues are recognized by the District in the fiscal year they are accessed, provided that they become available as defined above.

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent after December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. The term “unsecured” refers to taxes to personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue and receivables in the fiscal year of levy, provided that they are collected within the fiscal year or with sixty days of year-end.

**NOTE 9 - PENSION PLAN**

All District employees are eligible to participate in a pension plan offered by the California Public Employees Retirement System (CalPERS), an agent multiple-employer defined-benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement *and* disability retirement benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The District's employees participate in the CalPERS Miscellaneous Employee “2% at 55” Plan. Benefit provisions under the Plan are established by State statute and District resolution. Benefits are based on years of credited service, equal to one year of full-time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS; and the District must contribute the amounts specified by CalPERS. The District also contributes employees' contributions to CalPERS. The Plan's provisions and benefits in effect at June 30, 2008 are summarized as follows:

	<u>Miscellaneous</u>
Benefit vesting schedule	5 years service
Benefit payments	monthly for life
Retirement age	55
Monthly benefits, as % of annual salary	1.426% - 2.418%
Required employee contribution rates	7%
Required employer contribution rates	10.112%

CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the District's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The District uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions. The required contributions and related rates for the year ended June 30 were as follows:

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 9 - PENSION PLAN (Continued)**

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	4,691,248	100%	\$0
6/30/2007	4,523,356	100%	0
6/30/2008	5,159,708	100%	0

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.75% is assumed, including inflation at 3.0%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty-year period.

Audited annual financial statements and ten year trend information are available from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

**NOTE 10 - COMPENSATED ABSENCES**

Compensated absences at June 30, 2008 were as follows:

	Governmental Activities
Beginning Balance, at July 1, 2007	\$3,123,860
Additions	366,304
Payments made during fiscal year	(46,065)
Ending Balance, at June 30, 2008	<u>\$3,444,099</u>
Current Portion	<u>\$3,500</u>

The long-term portion of compensated absences is liquidated by the General Fund.

**NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

In addition to the pension benefits described in Note 9, the District provides post employment health care benefits, in accordance with the Employee Association Memorandum of Understanding (MOU) for represented employees and as adopted by Board Resolution for all other employees who retire from the District on or after attaining age 50 with at least 5 year of service. The District pays medical, dental, vision and life insurance premiums for participating retirees on the pay-as-you-go basis. Benefits are provided for the participant's lifetime and with an election of certain options may continue to be paid for the lifetime of a survivor of the participant. The medical insurance plan is administered by CalPERS and was initially contracted in November, 1978. The maximum medical insurance premium (including dental, vision, and life) that the District is obligated to provide annually as a benefit to retirees is \$1,200 for management employees, \$1,150 for confidential employees and \$1,022 for represented employees or the actual amount at retirement date, if greater than the District obligated benefit.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 11 – POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)**

During fiscal year ended June 30, 2008, there were one hundred and forty-four retirees participated in the health insurance plan, one hundred and nineteen retirees participated in the dental plan, ninety-four retirees participated in the vision plan, and one hundred and twenty retirees participated in the life insurance plan. The cost of retiree health care benefits is recognized as an expenditure as health care premiums are paid. The District paid premiums for the participating retirees during the fiscal year ended June 30, 2008 in the amount of \$1,045,791 for the health insurance plan, \$158,817 for the dental plan, \$9,928 for the vision plan, and \$129,816 for the life insurance plan for total payments of \$1,344,352. In addition to the above, the District contributed another \$2.8 million to a separately governed Retiree Health Care Trust as part of its plan to fully fund these benefits over the long-term.

The District established a trust fund in January 1981 to continue life insurance premium for retired employees. In 2004, the District ceased contribution to the trust when it changed life insurance carriers. The current trust is administered by American General Life Insurance Company. At June 30, 2008, the trust amount of \$2,724,190 reflected the District contribution and earned interest. The trust deposit is subject to a 10% surrender fee, and may only be transferred to a trust or another life insurance company in accordance with the terms of the life insurance reserve contract.

**NOTE 12 - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The District manages and finances these risks by purchasing commercial insurance and has a \$1,000 to \$5,000 deductible for general and special property liability with limits of \$10 million and \$350 million, respectively. The District has a \$300,000 deductible for workers' compensation with a \$1 million limit. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the District's commercial insurance coverages in any of the past three years.

As of June 30, 2008, the District had no material claims outstanding for general liability or for workers' compensation cases.

**NOTE 13 – NET ASSETS AND FUND BALANCES**

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

**A. Net Assets**

Net Assets is the excess of all the District assets over all its liabilities, regardless of fund. Net Assets are divided into three sections, and apply only to Net Assets, which is determined at the Government-wide level, and described below:

*Invested in Capital Assets, net of related debt* describes the portion of Net Assets which is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include assets committed to fund construction commitments and debt service requirements.

*Unrestricted* describes the portion of Net Assets which is not restricted to use.



**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**Notes to Basic Financial Statements**

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

The District is subject to litigation arising in the normal course of business. In the opinion of the District's Attorney, there is no pending litigation, which is likely to have a material adverse effect on the financial position of the District.

The District receives Federal and State grant funds. The amounts, if any, of the District's grant expenditures, which may be disallowed upon audit by the granting agencies, cannot be determined at this time, although the District expects any such amounts to be immaterial.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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## **BAY AREA AIR QUALITY MANAGEMENT DISTRICT REQUIRED SUPPLEMENTARY INFORMATION**

### ***Budgetary Principles***

Through the budget, the Board of Directors sets the direction of the District. The annual budget assures the most efficient and effective use of the District's economic resources, and establishes the priority of objectives that are to be accomplished during the fiscal year.

The annual budget covers the period from July 1 to June 30, and is a vehicle that accurately and openly communicates these priorities to the community, businesses, vendors, employees and other public agencies. In addition, it establishes the foundation of effective financial planning by providing resource allocation, performance measures and controls that permit the evaluation and adjustment of the District's performance.

The District follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a) The Board of Directors adopts an annual budget by resolution prior to July 1 of each fiscal year. The annual budget indicates appropriations by fund and by program. The Board of Directors may also adopt supplemental appropriations during the year. At the fund level, expenditures may not legally exceed appropriations. The Air Pollution Control Officer (APCO) is authorized to transfer budgeted amounts between divisions and programs within any fund.
- b) Budgets are adopted on a basis that is consistent with Generally Accepted Accounting Principles (GAAP). Annual appropriated budgets are adopted for the General and Special Revenue funds.
- c) Supplementary budgetary revenue and expenditure appropriations were adopted by the Board of Directors during the fiscal year. These supplemental appropriations have been included in the Budgeted Amounts - Final column of the Budgetary Comparison Schedules.

### ***Encumbrances***

Encumbrances represent commitments related to goods or service, that were unspent at year end. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the District's governmental fund types. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Permit fees	\$19,525,000	\$19,525,000	\$18,038,354	(\$1,486,646)
Title V permit fees	2,272,000	2,272,000	1,992,820	(279,180)
Asbestos fees	1,739,000	1,739,000	1,800,001	61,001
Penalties and variance fees	2,250,000	2,250,000	3,084,812	834,812
Hearing board fees	30,000	30,000	27,354	(2,646)
State subvention	1,722,863	1,722,863	1,711,718	(11,145)
AB 434/923 others	1,009,081	1,009,081		(1,009,081)
AB 2588 income			552,445	552,445
Miscellaneous	415,000	430,000	54,776	(375,224)
Special environmental projects			129,680	129,680
Federal grant - EPA	1,776,075	1,961,075	1,983,135	22,060
Federal grant - DHS	1,698,304	1,698,304	870,427	(827,877)
CMAQ Spare The Air	1,063,122	1,063,122	677,953	(385,169)
Other grants	459,899	459,899	1,325,994	866,095
Portable equipment registration program (PERP)			389,534	389,534
Interest	1,200,000	1,200,000	1,336,834	136,834
County apportionment:				
Alameda	3,687,643	3,687,643	3,754,178	66,535
Contra Costa	2,548,305	2,548,305	2,804,322	256,017
Marin	1,059,914	1,059,914	1,085,957	26,043
Napa	701,783	701,783	720,086	18,303
Santa Clara	5,051,167	5,051,167	5,298,785	247,618
San Francisco	2,402,667	2,402,667	2,680,293	277,626
San Mateo	2,645,231	2,645,231	2,638,154	(7,077)
Solano	639,301	639,301	626,119	(13,182)
Sonoma	1,042,746	1,102,572	1,115,987	13,415
Redevelopment			154,125	154,125
Total revenues	54,939,101	55,198,927	54,853,843	(345,084)
EXPENDITURES				
Program distribution			473,585	(473,585)
Executive office	4,857,861	5,782,505	4,991,577	790,928
Finance, administration and information systems	10,404,854	15,607,568	8,955,037	6,652,531
Legal services	2,274,480	2,341,990	2,074,476	267,514
Outreach and incentives	3,589,636	4,684,687	4,077,382	607,305
Compliance and enforcement	11,199,665	12,111,302	11,464,677	646,625
Engineering	8,477,641	9,173,711	9,324,643	(150,932)
Planning and research	6,333,916	10,612,401	5,981,905	4,630,496
Technical services	8,919,331	10,668,215	8,021,377	2,646,838
Total current expenditures	56,057,384	70,982,379	55,364,659	15,617,720
Capital outlay	2,557,707	5,831,183	3,604,633	2,226,550
Total expenditures	58,615,091	76,813,562	58,969,292	17,844,270
DEFICIENCY OF REVENUES OVER EXPENDITURES	(3,675,990)	(21,614,635)	(4,115,449)	17,499,186
OTHER FINANCING SOURCES				
Transfers in			595,708	595,708
Total other financing sources			595,708	595,708
NET CHANGE IN FUND BALANCE	(\$3,675,990)	(\$21,614,635)	(3,519,741)	\$18,094,894
BEGINNING FUND BALANCE			37,449,655	
ENDING FUND BALANCE			\$33,929,914	

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance Positive (Negative)
	Original	Final		
REVENUES				
TFCA/MSIF DMV fee	\$11,479,339	\$59,447,378	\$21,002,902	(\$38,444,476)
Carl Moyer Program		25,809,423	13,796,864	(12,012,559)
Nox and PM10 Program			52,492	52,492
Lower Emission School Bus Program		2,528,391	1,328,317	(1,200,074)
AB 434/923 others			595,708	595,708
Other grants			45,115	45,115
Total revenues	<u>\$11,479,339</u>	<u>\$87,785,192</u>	<u>\$36,821,398</u>	<u>(\$50,963,794)</u>
EXPENDITURES				
Programs:				
Program distribution		74,381,767	30,127,247	44,254,520
Smoking vehicle	785,223	784,226	290,131	494,095
Intermittent control	150,750	1,579,997	634,971	945,026
Transportation Fund for clean air administration	1,241,995	1,293,654	915,866	377,788
Vehicle buy-back	7,360,654	8,997,748	3,798,240	5,199,508
Mobile source incentive	550,715	562,384	414,121	148,263
Grant administration			45,114	(45,114)
Total expenditures	<u>10,089,337</u>	<u>87,599,776</u>	<u>36,225,690</u>	<u>51,374,086</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>1,390,002</u>	<u>185,416</u>	<u>595,708</u>	<u>410,292</u>
OTHER FINANCING USES				
Transfers out			(595,708)	(595,708)
Total other financing uses			<u>(595,708)</u>	<u>(595,708)</u>
NET CHANGE IN FUND BALANCE	<u>\$1,390,002</u>	<u>\$185,416</u>		<u>(\$185,416)</u>
BEGINNING FUND BALANCE, AS RESTATED				
ENDING FUND BALANCE				

BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)  
SCHEDULE OF FUNDING PROGRESS  
JUNE 30, 2008

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liability	Actuarial Over (Under) Accrued Liability	Funded Ratio	Covered Payroll	Actuarial Asset: Over (Under) Liability as Percentage of Covered Payroll
6/30/2005	\$122,659,724	\$135,111,093	(\$12,451,369)	90.8%	\$25,448,126	(48.9%)
6/30/2006	133,258,350	144,155,886	(10,897,536)	92.4%	26,512,786	(41.1%)
6/30/2007	145,957,078	154,268,467	(8,311,389)	94.6%	27,883,108	(29.8%)



**SINGLE AUDIT REPORTS**

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**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2008**

**SECTION I—SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of Auditors' report issued:

unqualified

Internal control over financial reporting:

- Material weakness(es) identified?

Yes

X

No

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

Yes

X

None  
Reported

Noncompliance material to financial statements noted?

Yes

X

No

**Federal Awards**

Type of Auditors' report issued on compliance for major programs:

unqualified

Internal control over major programs:

- Material weakness(es) identified?

Yes

X

No

- Significant deficiency(ies) identified that are not considered to be material weaknesses?

Yes

X

None  
Reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

Yes

X

No

Identification of major programs:

CFDA#(s)

Name of Federal Program or Cluster

66.001

Air Pollution Control Program Support

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X

Yes

No

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

Our audit did not disclose any significant deficiencies, or material weaknesses or instances of noncompliance material to the basic financial statements. We have also issued a separate Memorandum on Internal Control dated February 6, 2009 which is an integral part of our audits and should be read in conjunction with this report.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

Our audit did not disclose any findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

## **SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

Prepared by Management

### **Financial Statement Prior Year Findings**

There were no prior year Financial Statement Findings reported.

### **Federal Award Prior Year Findings and Questioned Costs**

There were no prior year Federal Award Findings and Questioned Costs reported.

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2008

<u>Grantor Agency and Award Title</u>	<u>Identifying Pass-Through Grant #</u>	<u>Federal Catalog Number</u>	<u>Program Expenditures</u>
Environmental Protection Agency			
Air Pollution Control Program Support	A00905608	66.001	\$1,301,048
PM 2.5 Monitoring Network			
CAA Special Purpose Activities	PM97993201	66.034	410,250
CAA Special Purpose Activities	PM98977301	66.034	104,861
National Air Toxic Trend Study	XA00900701	66.034	118,108
Pollution Prevention Incentive States	NP96955601	66.708	<u>48,868</u>
Total Environmental Protection Agency			<u>1,983,135</u>
Department of Homeland Security			
Biowatch - Homeland Security	2006-ST-91-2	97.091	<u>870,427</u>
Total Department of Homeland Security		97.091	<u>870,427</u>
U.S. Department of Transportation (Pass through California Department of Transportation)			
Spare the Air Program	CML-6297	20.205	<u>483,595</u>
Total U.S. Department of Transportation		20.205	<u>483,595</u>
Total Expenditures of Federal Awards			<u>\$3,337,157</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

**BAY AREA AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2008**

**NOTE 1-REPORTING ENTITY**

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of Federal awards for the Bay Area Air Quality Management District, California, as disclosed in the notes to the Basic Financial Statements.

**NOTE 2-BASIS OF ACCOUNTING**

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

**NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS**

Federal awards may be granted directly to the District by a Federal granting agency or may be granted to other government agencies which pass-through Federal awards to the District. The Schedule includes both of these types Federal award programs when they occur.

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors  
of the Bay Area Air Quality Management District  
San Francisco, California

We have audited the financial statements of the Bay Area Air Quality Management District (District) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 6, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control over Financial Reporting***

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about the whether District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated February 6, 2009 which is an integral part of our audits and should be read in conjunction with this report.

This report is intended solely for the information and use of the District Board, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Maye & Associates*

February 6, 2009



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors  
of the Bay Area Air Quality Management District,  
San Francisco, California

***Compliance***

We have audited the compliance of the Bay Area Air Quality Management District (District) with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The District's major federal programs are identified in Section I - Summary of Auditors' Results included in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

***Internal Control over Compliance***

The management of the District is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of District's internal control over compliance.

A *control deficiency* in a District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses, as defined above.

#### *Schedule of Expenditures of Federal Awards*

We have audited the financial statements of the District as of and for the year ended June 30, 2008, and have issued our report thereon dated February 6, 2009. Our audit was performed for the purpose of forming opinions on the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the District Board, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Maye & Associates*

February 6, 2009

**TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM**

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## REPORT ON COMPLIANCE WITH APPLICABLE PROVISIONS OF TRANSPORTATION FUND FOR CLEAN AIR (TFCA) PROGRAM

To the Board of Directors  
the Bay Area Air Quality Management District  
San Francisco, California

We have audited the basic financial statements of the Bay Area Air Quality Management District (District) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 6, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the applicable provisions and Assembly Bill 434 (AB434) (Health and Safety Code Sections 44220 through 44242) including the use of money for the reduction of emission from motor vehicles; the use of an independent auditor; the adoption of appropriate resolutions as specified in the Health and Safety Code Sections 44223, 44225, and 44241, and the not to exceed cap of 5% on administrative costs for the year ended June 30, 2008.

Based on the audit, we found that, for the items tested, the District complied with the applicable provisions of AB434 as referred to above. Further, based on our examination, for the items not tested, nothing came to our attention to indicate that the District had not complied with the applicable provisions of AB434.

This report is intended for the information of the District Board, management, and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.



February 6, 2009

Bay Area Air Quality Management District  
Transportation Fund for Clean Air (TFCA) Program  
Schedule of Expenditures  
For the year ended June 30, 2008

<u>Programs</u>	<u>Salaries and Benefits</u>	<u>Services and Supplies</u>	<u>Program Distribution</u>	<u>Total</u>
Program distribution			\$30,127,247	\$30,127,247
Smoking vehicle	\$282,406	\$7,725		290,131
Intermittent control	98,500	536,471		634,971
TFCA administration	718,911	196,955		915,866
Vehicle buy back	33,863	3,764,377		3,798,240
Mobile source incentive	301,719	112,402		414,121
Grant administration	1,920	43,194		45,114
Total expenditure	<u>1,437,319</u>	<u>4,661,124</u>	<u>30,127,247</u>	<u>\$36,225,690</u>